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TAGS: EG, IS PINR

SUBJECT: INTSUM 361 - JULY 19, 1977

MOSCOW, KUWAIT, SANA FOR AMBASSADORS

LONDON FOR KINSOLVING

1. EGYPT. IN AN EXCLUSIVE INTERVIEW PUBLISHED YESTERDAY
IN EGYPT'S LEADING NEWSPAPER, PRESIDENT SADAT LAID OUT
THE BASIC PRINCIPLES OF EGYPT'S POSITION ON PEACE NEGOTIA-
TIONS WITH ISRAEL. THE INTERVIEW, IN CONJUNCTION WITH
A SPEECH SADAT DELIVERED LAST WEEKEND, WAS INTENDED TO
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PUT EGYPT'S VIEWS ON RECORD BEFORE THE BEGINNING OF
OFFICIAL TALKS BETWEEN PRESIDENT CARTER AND ISRAELI PRIME
MINISTER BEGIN. THE TONE AND EMPHASIS OF SADAT'S REMARKS
SUGGEST THAT HE WAS ALSO TRYING TO MAKE A POSITIVE
IMPRESSION ON THE US AND UNDERCUT EMOTIONAL ARGUMENTS
HE ANTICIPATES BEGIN WILL PRESENT IN WASHINGTON.

2. SADAT BROKE NO NEW GROUND AND REPEATED AT SEVERAL POINTS EGYPT'S INSISTENCE THAT ISRAEL WITHDRAW FROM ALL OCCUPIED TERRITORY. HE PARTICULARLY STRESSED EGYPT'S ALREADY WELL-KNOWN OFFICIAL POSITIONS ON KEY MIDEAST PEACE ISSUES:

(A) UN RESOLUTION 242 IS THE PROPER BASIS FOR RECONVENING THE GENEVA CONFERENCE;

(B) THE PALESTINIAN PROBLEM IS THE CORE OF THE MIDEAST DISPUTE;

(C) A WEST BANK/GAZA PALESTINIAN "NATIONAL AUTHORITY" SHOULD BE ESTABLISHED, LINKED TO JORDAN

(D) EGYPT IS PREPARED TO SIGN A JUST PEACE WHICH WOULD PERMIT ISRAEL TO EXIST IN PEACE WITHIN RECOGNIZED BORDERS.

4. THE PRESIDENT ADDITIONALLY SPECIFIED FOUR PRINCIPLES ON WHICH HE SAID EGYPTIAN-SOVIET RELATIONS SHOULD BE BASED:

(A) "NONINTERFERENCE" IN THE DOMESTIC AFFAIRS OF THE OTHER, AND THE RIGHT OF EACH STATE TO CHOOSE ITS SYSTEM OF GOVERNMENT AND POLICIES;
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(B) RESPECT BY EACH SIDE FOR PREVIOUS COMMITMENTS AND AGREEMENTS;

(C) CONTINUING AGREEMENT ON THE FORM OF A MIDDLE EAST SETTLEMENT;

(D) NO OPPOSITION TO ESTABLISHMENT OF EGYPTIAN-SOVIET RELATIONS ON THE BASIS OF EQUALITY. (CONFIDENTIAL)

5. ISRAEL. ARAB PRESS COMMENTARY ON BEGIN'S US VISIT HAS THUS FAR BEEN LARGELY RESTRAINED. EMBASSY CAIRO NOTED THAT THE EGYPTIAN PAPERS, ALTHOUGH SOMEWHAT DISGRUNTLED OVER WHAT THEY CONSIDER TO BE ISRAEL'S NEGATIVE ATTITUDE TOWARD EGYPT'S POSITIONS AS EXPRESSED BY SADAT IN HIS RECENT SPEECH, HAVE GIVEN LOW KEY COVERAGE TO BEGIN'S TRIP. THE SYRIAN PRESS, ACCORDING TO EMBASSY DAMASCUS HAS BEEN MODERATELY SKEPTICAL THAT ANYTHING WILL BE ACCOMPLISHED BY THE BEGIN-CARTER TALKS. NEVERTHELESS, THE SYRIANS APPEAR TO BE DOWNPLAYING THEIR DOUBTS THAT BEGIN WILL BE MORE FORTHCOMING, AND SOME PAPERS EXPRESSED THE CAUTIOUS HOPE THAT SOME PROGRESS

WOULD BE MADE.

6. IN A SURPRISE MOVE, ISRAELI FINANCE MINISTER EHRLICH ANNOUNCED ON JULY 17 A SERIES OF ECONOMIC MEASURES TO CUT THE EXPECTED BUDGET DEFICIT AND TO REDUCE INFLATIONARY PRESSURES. EMBASSY TEL AVIV COMMENTED THAT THE STEPS WOULD HAVE BEEN NECESSARY NO MATTER WHICH PARTY WAS IN POWER. INDEED, THE EMBASSY UNDERSTANDS THAT THE MAIN POINTS OF THE PROGRAM WERE DRAWN UP BY THE LABOR GOVERNMENT TO BE IMPLEMENTED AFTER THE ELECTIONS. THE LIKUD GOVERNMENT ACTED IN ORDER TO REVERSE THE PROGRESSIVE DETERIORATION OF THE ISRAELI ECONOMY SINCE THE 1973 WAR, TO DEMONSTRATE ITS DETERMINATION TO PRESS ITS ECONOMIC REFORM TO THE ISRAELI PUBLIC IN
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GENERAL, AND TO THE HISTADRUT AND MILITANT UNIONS AND WORK COMMITTEES IN PARTICULAR, AND TO STRENGTHEN BEGIN'S HAND IN DEALING WITH THE US BY ATTEMPTING TO MOVE ISRAEL AWAY FROM ITS HEAVY ECONOMIC DEPENDENCE ON WASHINGTON.

7. THE REAL TEST OF THE LIKUD WILL BE HOW WELL THESE PROPOSALS ARE IMPLEMENTED--A PHASE, EMBASSY TEL AVIV OBSERVED, IN WHICH LABOR FREQUENTLY GOT POOR MARKS. THE GOVERNMENT CAN EXPECT STRONG CHALLENGES FROM THE LABOR ALIGNMENT, THE HISTADRUT, AND EVEN SOME OF THE POPULIST HERUT SUPPORTERS WITHIN THE LIKUD AS IT ATTEMPTS TO MOVE ISRAEL TO A MORE FREE-MARKET ECONOMY. RAKAH AND SHELLI HAVE ALREADY CALLED FOR A VOTE OF NO-CONFIDENCE IN THE KNESSET, ALTHOUGH THIS HAS NO CHANCE OF SUCCEEDING.

8. INITIAL HISTADRUT REACTION ALSO WAS HOSTILE TO THE GOVERNMENT ACTION. HISTADRUT LEADERS HELD AN EMERGENCY SESSION WHILE SOME OF THEIR MEMBERS CALLED FOR A ONE-HOUR GENERAL STRIKE TO PROTEST. THE HISTADRUT LEADERSHIP SEEMS PARTICULARLY PEEVED THAT SUCH MEASURES WERE INTRODUCED WITHOUT FIRST CONSULTING WITH THEM, CONTRARY TO EARLIER ASSURANCES HISTADRUT LEADERS BELIEVED THEY HAD BEEN GIVEN BY EHRLICH.

9. THIS CONFLICT APPEARS TO BE AN OPENING SALVO IN A CONFRONTATION BETWEEN THE LABOR MOVEMENT AND THE NEW GOVERNMENT. THE SHAPE THIS CONFLICT TAKES WILL SIGNIFICANTLY INFLUENCE THE GOVERNMENT'S FUTURE ECONOMIC COURSE, AND WILL HAVE IMPORTANT IMPLICATIONS FOR THE FUTURE PROSPECTS OF THE ISRAELI ECONOMY. IF THE LABOR MOVEMENT RESPONDS BY CRIPPLING STRIKES, BEGIN WILL EITHER BE FORCED TO BACK OFF FROM MOVING TOWARD AN AUSTERITY
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PROGRAM AND RESTRUCTURING THE ISRAELI ECONOMY, OR TO MOVE INTO A SERIOUS ENCOUNTER WITH THE HISTADRUT.

10. A LIMITED HISTADRUT REACTION, HOWEVER, CONFINED TO THE VERBAL AND PARLIAMENTARY PLANES, COULD ENCOURAGE THE BEGIN GOVERNMENT TO MAKE FURTHER MOVES. THESE COULD INCLUDE INCREASING THE VALUE ADDED TAX (VAT), STRIPPING THE HISTADRUT OF ITS INDUSTRIAL AND COMMERCIAL ENTERPRISES, ESTABLISHING A NATIONAL HEALTH AND RETIREMENT SYSTEM; AND ENACTING LEGISLATION IMPOSING COMPULSORY ARBITRATION IN ESSENTIAL SERVICES.

11. DESPITE THE GOVERNMENT'S ANNOUNCED INTENTION OF COMPENSATING THE POOR FOR THE INCREASED COST OF LIVING, IT SEEMS THAT THIS COMPENSATION WILL NOT EQUAL INCREASED COSTS. AS A RESULT, THE LOWER ECONOMIC STRATA, WHICH CONSTITUTE THE LIKUD'S ELECTORAL MAINSTAY, ARE LIKELY TO SUFFER. A SIGNIFICANT DETERIORATION IN THEIR ALREADY LOW LIVING STANDARD COULD PRODUCE DISAFFECTION WITH THE LIKUD.

12. THE FACT THAT IT WAS EHRlich WHO ANNOUNCED THE ECONOMIC MEASURES WHILE BEGIN WAS OUT OF THE COUNTRY IS OF BOTH POLITICAL AND SYMBOLIC SIGNIFICANCE. THE LIKUD WILL, BY LINKING PAINFUL ECONOMIC MEASURES TO ISRAELI NATIONAL SECURITY NEEDS, BE ABLE TO TAKE SOME OF THE STING OUT OF THEM. BEGIN MAY HOPE TO AVOID THE PERSONAL UNPOPULARITY WHICH EHRlich ALREADY "ENJOYS." BEGIN MAY ALSO BE SEEKING TO DEMONSTRATE TO EHRlich THE LIMITS BEYOND WHICH IT IS NOT FEASIBLE TO GO IN IMPLEMENTING THE LIBERAL PARTY'S ECONOMIC IDEAS. AT THE SAME TIME, EHRlich CAN DEMONSTRATE TO HIS PARTY THAT THE LIBERAL ALLIANCE WITH HERUT PAYS OFF IN POLICY, AS WELL AS PORTFOLIOS.

13. ALTHOUGH THESE AUSTERITY MEASURES WILL PROVOKE
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HEATED DEBATE WITHIN ISRAEL AND MAY WELL LEAD TO CONFLICTS BETWEEN THE GOVERNMENT AND THE HISTADRUT AND OPPOSITION PARTIES, WE DO NOT BELIEVE IT WILL SERIOUSLY IMPAIR LIKUD'S ABILITY TO GOVERN OR ITS PARTICIPATION IN THE PEACE PROCESS. ISRAELIS WILL NOT WANT TO JEOPARDIZE THE GOVERNMENT'S CAPABILITY TO RESIST ANY US PRESSURE TO ALTER ISRAEL'S POSITION ON KEY MIDEAST

ISSUES, ON WHICH A CONSENSUS OF SUPPORT FOR BEGIN EXISTS. IF BEGIN STRESSED THAT THE AUSTERITY MEASURES WILL MAKE ISRAEL LESS DEPENDENT ON THE US, PUBLIC SUPPORT FOR THEM COULD INCREASE. MOREOVER, BEGIN'S EMPHASIS ON MIDEAST PEACE ISSUES MAY DEFLECT SOME OF THE CRITICISM WHICH THE AUSTERITY PROGRAM COULD GENERATE,

IN THE MANNER OF ACHIEVING NATIONAL COOPERATION TO WARD OFF UNPALATABLE CONCESSIONS TO THE ARABS.
(CONFIDENTIAL)

14. LEBANON. ACCORDING TO EMBASSY BEIRUT, PHALANGE LEADER GEMAYEL'S CALL LATE LAST WEEK FOR A CHRISTIAN-MUSLIM DIALOGUE HAS RECEIVED MIXED REACTIONS. SHAMOUN STATED THAT HE IS OPPOSED TO THE IDEA AND REPEATED HIS DEMANDS FOR THE IMPLEMENTATION OF THE CAIRO ACCORDS. THE MODERATE MUSLIMS' RESPONSE WAS GENERALLY FAVORABLE, BUT THE LEFTISTS WERE UNENTHUSIASTIC.

15. MEANWHILE, TWO LEADING SHIITES FROM SOUTHERN LEBANON OBSERVED THAT THE SOUTHERN LEBANESE SHIITES ARE IN A DESPERATE DILEMMA. ON THE ONE HAND, THEY ARE ACCUSED BY THE CHRISTIANS AND ISRAELIS OF BEING PALESTINIAN AGENTS, AND BY THE PALESTINIANS OF BEING ISRAELI AGENTS ON THE OTHER. THEY CLAIMED THAT IF A REFERENDUM WERE HELD, THE PEOPLE OF SOUTHERN LEBANON
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WOULD OPT TO BE UNDER ISRAELI RULE RATHER THAN THE PALESTINIANS. (CONFIDENTIAL) VANCE

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